

**HARMONY NEIGHBORHOOD DEVELOPMENT, INC
FINANCIAL AUDIT
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011**

Under provisions of state law this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date AUG 28 2013

Sean M. Bruno
Certified Public Accountants

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Sean M. Bruno
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Harmony Neighborhood Development, Inc.
New Orleans, Louisiana

I have audited the accompanying consolidated statement of financial position of **Harmony Neighborhood Development (Harmony)** (a non-profit organization) as of December 31, 2011 and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the management of **Harmony**. My responsibility is to express an opinion on these consolidated financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Harmony** as of December 31, 2011 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(CONTINUED)

To the Board of Directors
Harmony Neighborhood Development, Inc.
New Orleans, Louisiana
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In accordance with Government Auditing Standards, I have also issued my report dated April 5, 2013, on my consideration of **Harmony's** internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of my audit.

My audit was made for the purpose of forming an opinion on the basic financial statements of **Harmony** taken as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133 and the supplemental information included in the report (shown on pages 19 through 22) are presented for purposes of additional analysis, and are not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and certain additional procedures including comparing and reconciling such information directly to the underlying accounting records and other records used to prepare the consolidated financial statements or the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the Schedule of Expenditures of Federal Awards and supplemental information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.



SEAN M. BRUNO
CERTIFIED PUBLIC ACCOUNTANTS

April 5, 2013

Sean M. Bruno
Certified Public Accountants

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2011

ASSETS

Cash and cash equivalents (NOTES 2 and 6)	\$ 371,125
Investments (NOTES 2 and 6)	3,426
Grants receivable (NOTE 6)	336,296
Prepaid expenses	1,558
Property held for resale and development (NOTE 3)	3,862,530
Investment in tax defaulted properties (NOTE 5)	24,057
Escrow (NOTE 10)	30,000
Plant, property and equipment, net of accumulated depreciation of \$36,231 (NOTES 2 and 4)	<u>60,770</u>
Total assets	<u>\$ 4,689,762</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 135,096
Payroll liabilities	3,294
Retainage payable	32,509
Deferred revenue	76,935
Lines of credit (NOTE 6)	753,682
Interest payable	12,822
Loans payable (NOTES 6 and 9)	<u>1,714,850</u>
Total liabilities	<u>2,729,188</u>
Net Assets: (NOTE 2)	
Unrestricted	1,943,919
Temporarily restricted	<u>16,655</u>
Total net assets	<u>1,960,574</u>
Total liabilities and net assets	<u>\$ 4,689,762</u>

The accompanying notes are an integral part of these financial statements.

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT			
Contributions (NOTE 2)	\$ 30,449	\$ 16,655	\$ 47,104
Grants and contracts (NOTE 2)	2,044,580	-	2,044,580
Sale of properties	836,000	-	836,000
Developer fees	140,000	-	140,000
Investment income	438	-	438
Other revenue	20,569	-	20,569
Net assets released from restriction (NOTE 12)	<u>468,144</u>	<u>(468,144)</u>	<u>-</u>
 Total revenues and support	 <u>3,540,180</u>	 <u>(451,489)</u>	 <u>3,088,691</u>
 EXPENSES (NOTE 8)			
Program services	1,698,044	-	1,698,044
Support services	<u>327,038</u>	<u>-</u>	<u>327,038</u>
 Total expenses	 <u>2,025,082</u>	 <u>-</u>	 <u>2,025,082</u>
 Changes in net assets	 <u>1,515,098</u>	 <u>(451,489)</u>	 <u>1,063,609</u>
 Net assets, beginning of year	 568,122	 468,144	 1,036,266
Net assets restatement (NOTE 13)	<u>(139,301)</u>	<u>-</u>	<u>(139,301)</u>
Net assets, beginning of year restated	<u>428,821</u>	<u>468,144</u>	<u>896,965</u>
 Net assets, end of year	 <u>\$ 1,943,919</u>	 <u>\$ 16,655</u>	 <u>\$ 1,960,574</u>

The accompanying notes are an integral part of these financial statements.

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

Cash Flows from Operating Activities:

Change in net assets	\$ 1,063,609
Depreciation expense	1,855
Increase in receivables	(260,767)
Decrease in prepaid expenses	30,347
Increase in accounts payable	12,675
Increase in retainage payable	32,509
Increase in payroll liabilities	3,294
Decrease in deferred revenue	(196,555)
Decrease in interest payable	<u>(3,532)</u>
Net cash provided by operating activities	<u>683,435</u>

Cash Flows from Investing Activities:

Maturities of investments	160,561
Development of properties	(2,453,393)
Sale of developed properties	921,757
Maturities of investments in tax defaulted properties	32,536
Purchase of plant, property, & equipment	<u>(58,839)</u>
Net cash used in investing activities	<u>(1,397,378)</u>

Cash Flows from Financing Activities:

Draws on lines of credit	753,682
Proceeds from loans	<u>153,957</u>
Net cash provided by financing activities	<u>907,639</u>

Net increase in cash and equivalents	193,696
Cash - January 1, 2011	<u>177,429</u>
Cash - December 31, 2011	<u><u>\$ 371,125</u></u>

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION:

Harmony Neighborhood Development (Harmony) is a non-profit community organizing, community planning and development organization focused on revitalizing the Central City neighborhood. Central to **Harmony's** work is the mission to make quality housing affordable by leveraging community partnerships and private and public funding options. **Harmony** believes that by building capacity for homeownership among low-income families in Central City, community wealth-building and empowerment are stimulated. **Harmony's** team's cluster development activities in Central City are aimed at restoring desolate blocks into lively areas with new levels of commitment and investment. **Harmony's** vision is to create a vibrant Central City by increasing homeownership to 40 percent over the next ten years.

To date, **Harmony** has been a partner in transforming over 25 vacant and decaying properties into quality affordable housing accessible to existing residents of Central City. **Harmony** also served as Community Partner on the completion of Harmony Oaks, the 460-unit mixed income redevelopment of the former CJ Peete Public Housing Complex. The project was made possible by the United States Department of Housing and Urban Development Hope VI Revitalization Grant awarded to the Housing Authority of New Orleans in March 2008. As Community Partner, **Harmony** is also responsible for developing 50 off-site, single-family homes in the neighborhood surrounding the complex under the Harmony Homes brand.

Harmony's comprehensive approach to revitalization also includes resident organizing, community asset building and small-scale commercial development.

Harmony's core values include:

- Community engagement;
- Economic inclusion;
- Sustainable design;
- Collaboration (partnering whenever possible);

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - ORGANIZATION, CONTINUED

- Integrity (delivering what is promised);
- Fiscal responsibility (established programs will be financially sustainable);
- Committed to quality (building what they would want to live in); and
- Clustering for impact.

The consolidated financial statements of **Harmony** include:

- **Harmony Neighborhood Development (Harmony)** as described above and three subsidiaries as described below:
 - Central City Partners II, LLC, a Louisiana Limited Liability Company formed to develop for-development projects for middle income families;
 - NONDC-Conventionally Financed Projects, LLC, a Louisiana Limited Liability Company established to construct homes utilizing conventional bank financing as the primary source of construction financing. NONDC-Conventionally Financed Projects, LLC seeks to revitalize the Central City neighborhood by building capacity for homeownership among low-families in Central City, stimulating community wealth-building and empowerment, and aiming cluster development activities at restoring desolate blocks into lively areas with new levels of commitment and investment;
 - NONDC-NSP2 Project, LLC, a Louisiana Limited Liability Company established to revitalize certain eligible census tracts of the Central City neighborhood utilizing Federal Neighborhood Stabilization funding awarded to a consortium lead by a local non-profit organization. NONDC-NSP2 Project, LLC focuses its efforts on acquisition of vacant and/or blighted structures and lots and construction of single-family for sale homes and aiming cluster development activities in Central City at restoring desolate blocks into lively areas with new levels of commitment and investment.

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - ORGANIZATION, CONTINUED

- Central City Partners II, LLC has been consolidated based on Harmony's effective control as managing member. NONDC-Conventionally Financed Projects, LLC and NONDC-NSP2 Project, LLC have been consolidated based on Harmony's 100% ownership interest.

Throughout the notes to the consolidated financial statements **Harmony**, Central City Partners II, LLC, NONDC-Conventionally Financed Projects, LLC, and NONDC-NSP2 Projects, LLC will be collectively referred to as **Harmony**. All significant intercompany accounts and transactions have been eliminated.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Presentation

The consolidated financial statements of **Harmony** are presented on the accrual basis of accounting

Harmony has adopted the provisions of the Financial Accounting Board Accounting Standards Codification (FASB ASC) Topic 958, Not-For-Profit Entities, and reports its financial position and activities according to three classes of net assets according to external (donor) imposed restrictions.

Unrestricted net assets include funds not subject to donor-imposed stipulations. The revenues received and expenses incurred in conducting the mission of **Harmony** are included in this category. **Harmony** has determined that any donor-imposed restrictions for current or developing programs and activities are generally met within the operating cycle of **Harmony** and therefore, **Harmony's** policy is to record these net assets as unrestricted.

Temporarily restricted net assets include realized gains and losses, investment income and gifts, appropriations and contributions for which donor imposed restrictions have not been met

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
CONTINUED.

Financial Statement Presentation, Continued

Permanently restricted net assets are contributions which are required by the donor-imposed restriction to be invested in perpetuity and only the income be made available for program operations in accordance with the donor restrictions. Such income is reflected in temporarily restricted net assets until utilized for donor imposed restrictions.

At December 31, 2011, **Harmony** had temporarily restricted net assets totaling \$16,655 which were restricted for the purpose of selling select properties to eligible homebuyers; there were no permanently restricted net assets.

Cash and Cash Equivalents

Harmony considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Concentration of Credit Risk

Financial instruments that are potentially subject **Harmony** to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions.

Uses of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
CONTINUED.

Contributions and Grants

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor imposed restrictions. Grants from governmental agencies and other entities are recognized when earned.

Income Taxes

Harmony is tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provisions for federal or state income taxes have been recorded in the accompanying financial statements. Should Harmony's tax-exempt status be challenged in the future the 2008, 2009 and 2010 tax years are open for examination by the IRS.

Plant, Property, and Equipment

Furniture and equipment are recorded at cost (or fair market for donated assets) and are depreciated using the straight-line method over the estimated useful lives of the related assets, which is five (5) years. Harmony capitalizes all furniture and equipment purchases that individually exceed \$1,000 with a useful life of greater than one (1) year.

Investments

The investments of Harmony are maintained by a local community foundation. The local community foundation invests the funds on behalf of Harmony and reports on the status of the investment to Harmony on a quarterly basis.

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 3 - PROPERTY HELD FOR RESALE AND DEVELOPMENT:

Amounts represent properties purchased by **Harmony** that have been developed and will be sold to homebuyers, or are in the process of being developed and will be held for resale after development is completed. The total costs of property held for resale and property held for development totaled 3,862,530 at December 31, 2011. There were five properties sold during the year for a total of \$836,000, the costs of these properties totaled \$924,757.

NOTE 4 - FURNITURE, EQUIPMENT AND ACCUMULATED DEPRECIATION:

At December 31, 2011, **Harmony's** furniture, equipment and accumulated depreciation were classified as follows:

	January 1, 2011 <u>Balance</u>	Additions/ Deletions	December 31, 2011 <u>Balance</u>
Office furniture and equipment	\$ 38,162	\$ 1,377	\$ 39,539
Office building and land	-	57,462	57,462
Accumulated depreciation	<u>(34,376)</u>	<u>(1,855)</u>	<u>(36,231)</u>
Total	<u>\$ 3,786</u>	<u>\$ 56,984</u>	<u>\$ 60,770</u>

Depreciation expense was \$1,855 for the year ended December 31, 2011.

NOTE 5 - INVESTMENT IN TAX DEFAULTED PROPERTIES:

Investment in tax defaulted properties represents delinquent property taxes **Harmony** paid for tax sale properties. The taxes paid by **Harmony** will be repaid at the time the owner sells the property to **Harmony**, or another entity or individual. The investment totaled \$24,057 at December 31, 2011.

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

**NOTE 6 - FAIR VALUE MEASUREMENTS OF
FINANCIAL ASSETS AND LIABILITIES:**

In accordance with FASB ASC Topic 820 fair value is defined as the price that **Harmony** would receive to sell an asset or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the asset or liability. ASC Topic 820 established a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to established classification of fair value measurements for disclosure purposes.

Various inputs are used in determining the value of **Harmony's** assets or liabilities. The inputs are summarized in the three broad levels listed below:

- Level 1 - Quoted prices are available in active markets for identical investments as of the reporting date.
- Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- Level 3 - Pricing inputs are unobservable for the investment and include situations where there is little, if any market activity. The inputs into the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. **Harmony's** assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

**NOTE 6 - FAIR VALUE MEASUREMENTS OF
FINANCIAL ASSETS AND LIABILITIES, CONTINUED:**

All investments are considered Level 1 investments.

The carrying value and the estimated fair values of **Harmony** financial instruments at December 31, 2011 are as follows:

<u>Description</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 371,125	\$ 371,125
Investments	3,426	3,426
Grants receivable	336,292	336,292
Lines of credit	753,682	753,682
Loans payable	1,714,850	1,714,850

NOTE 7 - CONTINGENCIES:

Grants and contracts with agencies often require fulfillment of certain conditions as set forth in the terms of the agreements. Failure to fulfill the conditions could result in the return of funds to the grantors. Although the return of funds is a possibility, the Board of Directors deems the contingency unlikely, since **Harmony** has agreed to comply with the grantors' provisions

NOTE 8 - FUNCTIONAL ALLOCATION OF EXPENSES.

The costs of providing the various programs and activities have been summarized on a functional basis in the schedule of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 9 - LOANS PAYABLE:

On June 15, 2009, **Harmony** entered into a Construction Loan Agreement with the Department of Housing and Urban Development and the Housing Authority of New Orleans. The balance of the loan at December 31, 2011 was \$1,108,860. The loan bears an interest rate of 0% with a maturity date of December 31, 2011. The loan was renewed November 7, 2012. The loan funds will be utilized to construct twenty-two (22) Homeownership Replacement units; principal and interest payable will be paid from the net sale proceeds at the time that the Homeownership Replacement Units are sold.

On September 2, 2009, **Harmony** entered into a financial assistance (loan) agreement with the Louisiana Housing Finance Agency (LHFA). Under the agreement the LHFA lent funds to **Harmony** to redevelop three (3) vacant residential properties. The loan bears no interest and will be repaid to LHFA from the net sale proceeds at the time the four redeveloped properties are sold. The balance of the loan at December 31, 2011 was \$188,812.

On April 27, 2010, **Harmony** received recoverable grant financing (a loan) from a private foundation in the amount of \$125,000. The loan bears a 0% interest rate and must be paid in full by May 15, 2015. At December 31, 2011, the outstanding balance on the loan was \$112,178, net of the unamortized discount of \$12,822.

On November 30, 2011 **Harmony** obtained a loan from a limited liability corporation in the amount of \$305,000. The loan bears an interest rate of 3.5% with interest payments being due semi-annually in arrears on May 30th and November 30th. The principal sum and the final interest payment are due on May 31, 2013. At December 31, 2011, the outstanding balance on the loan was \$305,000.

NOTE 10 - ESCROW

The escrow amount represents a soft-second mortgage granted to a homebuyer. The soft-second mortgage will be forgiven a rate of 20% per year for five years beginning in 2015 after the homebuyer has lived in the home for five (5) years. The escrow balance was \$30,000 at December 31, 2011.

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

**NOTE 11 - CENTRAL CITY PARTNERS II, LLC /
RELATED PARTY TRANSACTIONS:**

On May 1, 2009, **Harmony** entered into an operating agreement with Peete Redevelopment, LLC (Peete) to establish Central City Partners II, LLC (CCP II), a Louisiana Limited Liability Company. **Harmony** has a one percent (1%) interest in the agreement and Peete has a ninety-nine percent (99%) interest. **Harmony** is the managing partner.

CCP II was formed to develop for-sale development projects and is funded through the Hope VI grant program, a program funded by the United States Department of Housing and Urban Development and administered by the Housing Authority of New Orleans (HANO). Funds received under this program are used to finance the construction of for-sale properties and to subsidize costs to insure that **Harmony** realizes a pre-established developer's fee, and no loss, on the sale of the properties developed. The construction subsidy is recognized as grant revenue to **Harmony**.

During the year, **Harmony** paid Peete Redevelopment \$19,242 which was the share of developer fee revenue earned from the for-sale development project funded by HANO. Peete Redevelopment donated the funds back to **Harmony** as an unrestricted contribution

In 2008, **Harmony** entered into an operating agreement with Peete, to create Central City Partners I, LLC, a Missouri Limited Liability Company established to develop rental properties. **Harmony** has a one percent (1%) interest in the company and acts as manager of the company by providing rental development services. The company pays a developer's fee to **Harmony** for developer services rendered to the company. During the year ended December 31, 2011, **Harmony** was paid \$100,000 for rental development services.

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 12 - NET ASSETS RELEASED FROM RESTRICTION:

During the year ending December 31, 2011, **Harmony** released \$468,144 in net assets from restriction based on the satisfaction of donor-imposed stipulations.

NOTE 13 - NET ASSET RESTATEMENT/PRIOR PERIOD ADJUSTMENT:

A net asset restatement was made to reduce the beginning net asset balance by \$139,901 for loan funds received in prior periods and incorrectly recognized as grant revenue.

NOTE 14 - ECONOMIC DEPENDENCY:

The primary sources of revenue for **Harmony** are grants and contributions provided through various funding agencies and private foundations. The continued success of **Harmony** is dependent upon the continued receipt of such funds as well as obtaining new sources of funding.

NOTE 15 - SUBSEQUENT EVENTS:

FASB 165, which is codified in ASC Top 855-10, requires the disclosure of the date through which **Harmony** has evaluated subsequent events and the reason for selecting that date. **Harmony** evaluated subsequent events from January 1, 2012 to April 5, 2013, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

<u>GRANTOR</u>	<u>CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY NUMBER</u>	<u>ACTIVITY</u>
U.S. Department of Housing and Urban Development			
<i><u>Awards from Pass-Through Entities</u></i>			
<i>City of New Orleans</i>			
CDBG HCS - Harmony Neighborhood Development	14 Unknown	CD# 50-311(10)	25,125
<i>Louisiana Housing Finance Agency</i>			
CDBG State's Program and Non-Entitlement Grants in Hawaii	14.228		192,464
<i>New Orleans Redevelopment Authority</i>			
ARRA-Neighborhood Stabilization Program 2	14.256		1,276,739
<i>Housing Authority of New Orleans</i>			
CDBG Demolition and Revitalization of Severely Distressed Public Housing	14.866	LA-48-URD-001-1107	<u>1,108,860</u>
Total U.S Department of Housing and Urban Development			<u>2,603,188</u>
Total Expenditures of Federal Awards			\$ <u>2,603,188</u>

HARMONY NEIGHBORHOOD DEVELOPMENT, INC
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 1 - Basis of Accounting.

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of **Harmony** and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profits. Therefore, some amounts presented in this schedule may differ from amounts presented, or used in the preparation of, the basic financial statements.

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT COLLABORATIVE
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
AS OF DECEMBER 31, 2011

	NONDC	Central City Partners II, LLC	NONDC-NSP2 Projects, LLC	NONDC- Conventionally Financed Projects, LLC	Total	Elimination	Consolidated
Cash and cash equivalents	\$ 370,945	\$ 70	\$ -	\$ 110	\$ 371,125	\$ -	\$ 371,125
Investments	3,426	-	-	-	3,426	-	3,426
Investment in CCP II	-	-	-	-	-	-	-
Grants receivable	334,287	-	2,009	-	336,296	-	336,296
Intercompany receivable	1,777,532	266,954	22,748	-	2,067,234	(2,067,234)	-
Prepaid expenses	1,558	-	-	-	1,558	-	1,558
Property held for resale and development	185,936	1,464,291	1,125,733	1,086,570	3,862,530	-	3,862,530
Investment in tax defaulted properties	24,057	-	-	-	24,057	-	24,057
Plant, property, and equipment net of accumulated depreciation	60,770	-	-	-	60,770	-	60,770
Escrow	30,000	-	-	-	30,000	-	30,000
Total assets	\$ 2,788,511	\$ 1,731,315	\$ 1,150,490	\$ 1,086,680	\$ 6,756,996	\$ (2,067,234)	\$ 4,689,762
Liabilities							
Accounts payable	\$ 36,920	\$ -	\$ 98,176	\$ -	\$ 135,096	\$ -	\$ 135,096
Payroll liabilities	3,294	-	-	-	3,294	-	3,294
Retainage payable	-	-	32,509	-	32,509	-	32,509
Intercompany payable	-	316,749	1,019,805	730,680	2,067,234	(2,067,234)	-
Deferred revenue	75,000	1,935	-	-	76,935	-	76,935
Interest payable	12,822	-	-	-	12,822	-	12,822
Lines of credit	-	402,713	-	350,969	753,682	-	753,682
Loans payable	605,990	1,108,860	-	-	1,714,850	-	1,714,850
Total liabilities	734,026	1,830,257	1,150,490	1,081,649	4,796,422	(2,067,234)	2,729,188
Net Assets							
Beginning net asset balance	901,526	134,740	-	-	1,036,266	-	1,036,266
Net asset restatements	-	(139,301)	-	-	(139,301)	-	(139,301)
Beginning net asset balance, restated	901,526	(4,561)	-	-	896,965	-	896,965
Change in net assets	1,152,959	(94,381)	-	5,031	1,063,609	-	1,063,609
Ending net asset balance	2,054,485	(98,942)	-	5,031	1,960,574	-	1,960,574
Total liabilities and net assets	\$ 2,788,511	\$ 1,731,315	\$ 1,150,490	\$ 1,086,680	\$ 6,756,996	\$ (2,067,234)	\$ 4,689,762

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
CONSOLIDATING SCHEDULE OF REVENUES AND SUPPORT
FOR THE YEAR ENDED DECEMBER 31, 2011

REVENUES AND SUPPORT

	NONDC	Central City Partners II, LLC	NONDC-NSP2 Projects, LLC	NONDC- Conventionally Financed Projects, LLC	Total	Elimination	Consolidated
Contributions	\$ 30,449	\$ -	\$ -	\$ 16,655	\$ 47,104	\$ -	\$ 47,104
Grants and contracts	1,903,863	138,708	2,009	-	2,044,580	-	2,044,580
Sale of properties	-	324,000	-	512,000	836,000	-	836,000
Developer fees	160,108	-	-	-	160,108	(20,108)	140,000
Interest income	438	-	-	-	438	-	438
Other income	<u>32,745</u>	<u>1,311</u>	<u>-</u>	<u>-</u>	<u>34,056</u>	<u>(13,487)</u>	<u>20,569</u>
Total revenues and support	<u>\$ 2,127,603</u>	<u>\$ 464,019</u>	<u>\$ 2,009</u>	<u>\$ 528,655</u>	<u>\$ 3,122,286</u>	<u>\$ (33,595)</u>	<u>\$ 3,088,691</u>

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Program Services</u>	<u>Support Services</u>	<u>Total Expenses</u>	<u>Elimination</u>	<u>Consolidated</u>
<u>NONDC</u>					
Salaries	\$ 253,336	\$ 37,855	\$ 291,191	\$ -	\$ 291,191
Payroll taxes	21,559	3,221	24,780	-	24,780
Fringe benefits	39,504	5,903	45,407	-	45,407
Professional services	52,383	197,058	249,441	-	249,441
Marketing	14,072	-	14,072	-	14,072
Insurance	-	8,413	8,413	-	8,413
Rent and parking	25,187	4,445	29,632	-	29,632
Telephone	5,110	902	6,012	-	6,012
Office expenses	8,289	1,463	9,752	-	9,752
Depreciation	1,577	278	1,855	-	1,855
Meetings	8,057	1,422	9,479	-	9,479
Staff training	4,498	794	5,292	-	5,292
Interest	3,001	530	3,531	-	3,531
Printing and reproduction	9,096	1,605	10,701	-	10,701
Property taxes	4,504	-	4,504	-	4,504
Property maintenance	2,285	-	2,285	-	2,285
Donation expense	200,000	-	200,000	-	200,000
Repairs & maintenance	1,982	350	2,332	-	2,332
Homebuyer grants	44,000	-	44,000	-	44,000
Other	8,475	1,496	9,971	-	9,971
Miscellaneous	<u>1,695</u>	<u>299</u>	<u>1,994</u>	<u>-</u>	<u>1,994</u>
Subtotal NONDC	<u>708,610</u>	<u>266,034</u>	<u>974,644</u>	<u>-</u>	<u>974,644</u>
<u>Central City Partners II, LLC</u>					
Cost of homes sold	446,353	-	446,353	-	446,353
Developer fees	9,621	-	9,621	-	9,621
Property maintenance	40,384	-	40,384	-	40,384
Miscellaneous	<u>1,038</u>	<u>61,004</u>	<u>62,042</u>	<u>-</u>	<u>62,042</u>
Subtotal Central City Partners II, LLC	<u>497,396</u>	<u>61,004</u>	<u>558,400</u>	<u>-</u>	<u>558,400</u>

(continued on next page)

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Program Services</u>	<u>Support Services</u>	<u>Total Expenses</u>	<u>Elimination</u>	<u>Consolidated</u>
<u>NONDC-NSP Projects, LLC</u>					
Cost of homes sold	-	-	-	-	-
Professional fees	-	-	-	-	-
Property maintenance	2,009	-	2,009	-	2,009
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal NONDC-NSP Projects, LLC	<u>2,009</u>	<u>-</u>	<u>2,009</u>	<u>-</u>	<u>2,009</u>
<u>NONDC-Conventionally Financed Projects, LLC</u>					
Cost of homes sold	478,404	-	478,404	-	478,404
Developer fees	20,108	-	20,108	(20,108)	-
Property maintenance	11,625	-	11,625	-	11,625
Miscellaneous	<u>13,487</u>	<u>-</u>	<u>13,487</u>	<u>(13,487)</u>	<u>-</u>
Subtotal NONDC-Conventionally Financed Projects, LLC	<u>523,624</u>	<u>-</u>	<u>523,624</u>	<u>(33,595)</u>	<u>490,029</u>
Total consolidated expenses	<u>\$ 1,731,639</u>	<u>\$ 327,038</u>	<u>\$ 2,058,677</u>	<u>\$ (33,595)</u>	<u>\$ 2,025,082</u>

Sean M. Bruno
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL AND COMPLIANCE AND OTHER
MATTERS OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
**Harmony Neighborhood
Development**
New Orleans, Louisiana

I have audited the financial statements of the **Harmony Neighborhood Development (Harmony)** (a non-profit organization) as of and for the year ended December 31, 2011, and have issued my report thereon dated April 5, 2013. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Harmony is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered Harmony's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harmony's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Harmony's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Harmony's financial statements will not be prevented, or detected and corrected on a timely basis.

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL AND COMPLIANCE AND OTHER
MATTERS OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

(CONTINUED)

Internal Control Over Financial Reporting, Continued

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, I identified certain deficiencies in internal control over financial reporting described in the accompanying Schedule of Finding and Questioned Costs as item 2011-01 that I consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Harmony's** financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2011-01 and 2011-02.

I noted certain other matters that I reported to management of **Harmony** in a separate letter dated April 5, 2013.

Harmony's response to the findings identified in my audit is described in the accompanying Schedule of Findings and Questioned Costs. I did not audit **Harmony's** response and according I express no opinion on it.

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL AND COMPLIANCE AND OTHER
MATTERS OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

(CONTINUED)

This report is intended solely for the information and use of management, others within the entity and funding sources, and is not intended to be and should not be used by anyone other than these specified parties.



SEAN M. BRUNO
CERTIFIED PUBLIC ACCOUNTANTS

April 5, 2013

Sean M. Bruno
Certified Public Accountants

Member
American Institute of
Certified Public Accountants
Society of Louisiana
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
**Harmony Neighborhood
Development**
New Orleans, Louisiana

Compliance

I have audited the compliance of **Harmony Neighborhood Development (Harmony)** with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2011. **Harmony's** major federal programs are identified in the Summary of Independent Auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of **Harmony's** management. My responsibility is to express an opinion on **Harmony's** compliance based on my audit

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

(CONTINUED)

Compliance, Continued

An audit includes examining, on a test basis, evidence about **Harmony's** compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on **Harmony's** compliance with those requirements.

In my opinion, **Harmony** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2011. However, the results of my auditing procedures disclosed instances of non-compliance with those requirements which are required to be reported in accordance with OMB circular A-133 and which are described in Schedule III in the accompanying Schedule of Findings and Questioned Costs as items 2011-01 and 2011-02.

Internal Control Over Compliance

The management of **Harmony** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered **Harmony's** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of **Harmony's** internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

(CONTINUED)

Internal Control Over Compliance, Continued

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies, as described in the accompanying Schedule of Findings and Questioned Costs as item 2011-01.

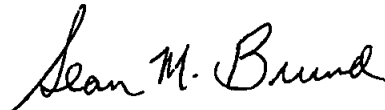
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Harmony's responses to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit **Harmony's** responses and, accordingly, I express no opinion on the responses.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

(CONTINUED)

This report is intended solely for the information and use of the Board of Directors, the audit committee, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



SEAN M. BRUNO
CERTIFIED PUBLIC ACCOUNTANTS

April 5, 2013

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Section I - Summary of the Independent Auditor's Results

Financial statements

- | | | |
|----|--|--------------------|
| 1. | Type of report issued: | <u>Unqualified</u> |
| 2. | Did the audit disclose any material weaknesses in internal control over financial reporting: | <u>No</u> |
| 3. | Did the audit disclose any significant deficiencies in internal control over financial reporting: | <u>Yes</u> |
| 4. | Did the audit disclose any non-compliance which is material to the financial statements of the organization: | <u>No</u> |

Federal awards

- | | | |
|----|---|--------------------|
| 5. | Did the audit disclose any material weaknesses internal control over major federal programs: | <u>No</u> |
| 6. | Did the audit disclose any significant deficiencies in internal control over major programs: | <u>Yes</u> |
| 7. | Type of report issued on compliance for major programs: | <u>Unqualified</u> |
| 8. | Did the audit disclose any audit findings which the independent auditors are required to report under OMB Circular A-133, Section 510(a): | <u>Yes</u> |

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Section I - Summary of the Independent Auditor's Results, Continued

9. The following is an identification of major programs:

<u>CFDA or Contract Number</u>	<u>Name of Federal Program</u>
14.228	Community Development Block Grant - States and Non-entitlement Grants in Hawaii
14.256	ARRA - Neighborhood Stabilization Program

10. The dollar threshold used to distinguish between Type A and Type B Programs, as described in OMB Circular A-133, Section 520(b) was \$300,000
11. Did the auditee qualify as a low risk auditee under OMB Circular A-133, Section 530. Yes

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011

SCHEDULE II - Financial Statement Findings

INTERNAL CONTROL OVER FINANCIAL REPORTING

Audit Finding Reference Number

2011-01 – Financial and Grant Management System

Criteria

OMB Circular A-110 specifies that financial management systems must be maintained in accordance with certain standards. An effective financial system provides management with timely and accurate financial reports on a periodic basis that would allow management to effectively manage Harmony and its resources.

Effective control and accountability must be maintained for all grants. Grantees must monitor grant and sub-grant supported activities to ensure federal requirements are complied with and performance goals are being achieved. Grantee monitoring must be performed for each program, function or activity.

Condition and Perspective

I noted that management failed to ensure that accounting records and general ledger accounts (i.e. cash, receivables, deferred revenue, loans payable, revenue, and intercompany accounts) were reconciled and reviewed on a timely basis. The lack of reconciliations and oversight resulted in various account balances being misstated, transactions being recoded incorrectly or without necessity, and certain transactions not being recorded in the general ledger.

Cause

Lack of effective accounting policies and procedures, lack of sufficient accounting knowledge to ensure proper treatment and recordation of accounting transactions, and lack of defined roles for grant administration.

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011

SCHEDULE II - Financial Statement Findings, Continued

INTERNAL CONTROL OVER FINANCIAL REPORTING, CONTINUED

Audit Finding Reference Number

2011-01 – Financial and Grant Management System, Continued

Effect

Harmony is not in compliance with OMB Circular A-110 financial reporting standards.

Recommendation

I recommend that **Harmony** establish and implement effective policies and procedures to improve the financial and grants management systems of the organization. **Harmony** should strengthen its internal controls over grant administration to ensure that there is no greater than a remote likelihood of noncompliance with federal and program specific requirements and to ensure that misstatements, errors, and omissions are detected and corrected on a timely basis.

Management's Response

A third party accountant will be engaged to perform certain key accounting functions. It will be the responsibility of this third party accountant (TPA) to work with management to assure that the issues raised in the Management letter are resolved. This third party accountant will assist management in developing and implement policies and procedures that will assure the accuracy of financial reporting.

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011

Section III - Federal Award Findings and Questioned Costs

2011-01 - Financial and Grant Management System
See finding number 2011-01 in Section II

Audit Finding Reference Number

2011-02 - Untimely submission of audit report

Criteria

Pursuant to the requirement of Louisiana Statute R.S. 24.513, annual financial reports shall be completed within six (6) months of the close of an entity's fiscal year, and according to OMB Circular No. A-133, section 320, Single audits are required to be completed and the data collection form and reporting package submitted within the earlier of thirty (30) days after receipt of the auditor's report, or nine (9) months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit.

Conditions and Perspective

The December 31, 2011 Single Audit reporting package was not submitted within the prescribed time frame.

Cause

Although the audit was completed well prior to the prescribed deadline, there were certain program issues unanswered by the funding source, which pertained to all intermediaries that participated in the program that resulted in material adjustments having to be made to the financial statements. The adjustments also resulted in a restatement of the beginning net asset balance.

Effect

Harmony has not complied with the Single Audit requirement of OMB Circular A-133

HARMONY NEIGHBORHOOD DEVELOPMENT, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011

Section III - Federal Award Findings and Questioned Costs, Continued

Audit Finding Reference Number

2011-02 - Untimely submission of audit report, Continued

Recommendation

I recommend that management of **Harmony** take steps to ensure that the Single Audit reporting package is submitted within the prescribed federal deadline.

Management's Response

Management will take the necessary steps to ensure that the audit is completed timely.

Sean M. Bruno
Certified Public Accountants

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INDEPENDENT AUDITOR'S COMMENTS TO MANAGEMENT

To the Board of Directors
**Harmony Neighborhood
Development**
New Orleans, Louisiana

I have audited the consolidated financial statements of **Harmony Neighborhood Development (Harmony)** for the year ended December 31, 2011, and have issued my report thereon dated April 5, 2013.

In planning and performing my audit of the financial statements, I considered the organization's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

During my audit, I became aware of several matters that are opportunities for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes my findings and recommendation regarding those matters.

This letter does not affect my report dated April 5, 2013 on the financial statements of **Harmony**.

**NEW ORLEANS NEIGHBORHOOD DEVELOPMENT COLLABORATIVE
INDEPENDENT AUDITOR'S COMMENTS TO MANAGEMENT**

(CONTINUED)

CURRENT YEAR'S COMMENTS TO MANAGEMENT

2011-01 - Financial Management System

Condition

Again, as noted in prior years' audit, management of **Harmony** did not take steps to ensure that accounting records and general ledger accounts were accurately reconciled and reviewed on a regular basis and that transactions recorded in the general ledger were accurate and adequately supported as follows:

- Accurate bank reconciliations were not prepared for the operating account during FY11; the monthly bank reconciliations included *invalid outstanding transactions* which were carried forward to all bank reconciliations prepared during the year.
- The balance for an investment account was not included in the ending FY11 trial balance due to the balance being erroneously written off during the year.
- Receivables and revenue relating to grant programs had not been properly recorded due to management's failure to ensure grant revenue and receivable were reconciled to grant expenditures and receipts.
- Management failed to ensure FY11 related expenses paid in FY12 were accrued to the correct accounting period resulting in the ending accounts payable balance and related property held for development and expense accounts being understated.
- Funds received under a grant loan program were improperly reported as revenue due to management's failure to ensure grant funds were accounted for in accordance with the terms of the agreement with the funding source.
- Activity from the checking account related to a line of credit was not reflected in the general ledger resulting in a reimbursement received from funders not being properly recorded and grant revenue being understated.

**NEW ORLEANS NEIGHBORHOOD DEVELOPMENT COLLABORATIVE
INDEPENDENT AUDITOR'S COMMENTS TO MANAGEMENT**

(CONTINUED)

CURRENT YEAR'S COMMENTS TO MANAGEMENT

2011-01 - Financial Management System, continued

Condition, continued

- A draw from the HANO loan was not properly recorded in the general ledger resulting in the amount being improperly excluded from the ending loan balance reported by **Harmony**.
- Two (2) construction invoices could not be located for two (2) payments made to a contractor.
- Journal entries were recorded in the general ledger that were not adequately supported by appropriate documentation, and, in several instances, the journal entries were incorrect and/or unnecessary.

Recommendation

I recommend that management of **Harmony** establish, implement, and adhere to effective policies and procedures that require accounting records be properly reconciled and reviewed by management on a regular basis and that transactions be reviewed for necessity, accuracy, and completeness prior to being recorded in the general ledger. I further recommend that **Harmony** hire an experienced accountant with sufficient and appropriate knowledge of accounting principles and standards to ensure that general ledger transactions are properly recorded and consistent with accounting principles and policies adopted by the organization.

Management's Response

Management has implemented procedures whereby our accounting records are currently reconciled by staff and reviewed by the Executive Director and the Finance Committee on a monthly basis. The Finance Manager will begin to print the general ledger monthly for the review of the Executive

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT COLLABORATION
INDEPENDENT AUDITOR'S COMMENTS TO MANAGEMENT

(CONTINUED)

CURRENT YEAR'S COMMENTS TO MANAGEMENT, CONTINUED

2010-01 - Financial Management System, continued

Management's Response, continued

Director's and Finance Chairman and supporting documentation is being attached to all journal entries prior to posting.

Management has also engaged the services of a third party organization to assist with the review of the monthly transactions and the processing of the monthly financial statements.

**NEW ORLEANS NEIGHBORHOOD DEVELOPMENT COLLABORATIVE
INDEPENDENT AUDITOR'S COMMENTS TO MANAGEMENT**

(CONTINUED)

CURRENT YEAR'S COMMENTS TO MANAGEMENT, CONTINUED

2010-01 - Financial Management System, continued

Management's Response, continued

Director's and Finance Chairman and supporting documentation is being attached to all journal entries prior to posting.

Management has also engaged the services of a third party organization to assist with the review of the monthly transactions and the processing of the monthly financial statements.

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT COLLABORATIVE
INDEPENDENT AUDITOR'S COMMENTS TO MANAGEMENT

(CONTINUED)

PRIOR YEAR'S MANAGEMENT LETTER COMMENTS

2010-01 - Financial Management System

Condition

Again, as noted in prior years' audit, management of Harmony did not take steps to ensure that accounting records and general ledger accounts were reconciled and reviewed on a monthly basis. I noted that there were certain schedules (i.e. costs of homes sold, costs of homes available for sale, etc.) that did not properly roll forward. I also noted that there were journal entries that were recorded in the general ledger that were not adequately supported by appropriate documentation. I further noted that management followed the practice of recording invoices received from contractors in the general ledger system when draw downs were received instead of when the invoice is received. This results in costs and related retainage not being recorded properly.

Status

Unresolved; see current year management letter comment 2011-01.

I wish to thank you and your staff for the support afforded me during my audit.

This report is intended solely for the information and use of the Finance Committee, Board of Directors, and management and is not intended to be and should not be used by anyone other than these specified parties



SEAN M. BRUNO

CERTIFIED PUBLIC ACCOUNTANTS

April 5, 2013

Sean M. Bruno

Certified Public Accountants